

EXHIBIT 27



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Nine-digit CUSIP* numbers if available, to which the information relates:

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: Employees Retirement System of the Government of the Commonwealth of Puerto Rico

Other Obligated Person's Name (if any): _____

Six-digit CUSIP* number(s): 29216M

TYPE OF INFORMATION PROVIDED:

A. ☒ Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: 2015-16

B. ☐ Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: _____

C. ☐ Notice of Failure to Provide Annual Financial Information as Required

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez

Sebastián M. Torres Rodríguez

Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: April 25, 2017



EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

ANNUAL FINANCIAL INFORMATION Fiscal Year 2016

Introduction

In connection with the issuance by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") of its Senior Pension Funding Bonds (Base CUSIP No. 29216M) and in compliance with Rule 15c2-12, as amended, of the Securities and Exchange Commission, the System has covenanted to file within 305 days after the end of each fiscal year with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA"):

- Core financial information and operating data for the prior fiscal year, including audited financial statements, prepared in accordance with generally accepted accounting principles.
- Material historical quantitative data, including financial information and operating data on the System and information as to revenues, expenditures, financial operations, and indebtedness generally found in the Official Statements prepared in connection with the bond issuances.

Appendix I

Included in Appendix I is the System's Annual Financial Information and Operating Data Report containing data for the past five fiscal years ending on June 30, 2016, as prepared by the System, consisting of material historical quantitative data, including financial information and operating data on the Corporation. The financial and operating data in Appendix I sets forth only the results of actual operations and does not reflect demographic information or forecasts regarding operations, except when necessary to place operating results and other information in context.

The information should be read in conjunction with the Official Statements prepared in connection with the issuance of the bonds. The headings in this report are the same as the headings in the corresponding sections and subsections of the Official Statements. All terms not otherwise defined shall have the respective meanings given to them in said Official Statements.

Note:

The System's audited financial statements for the fiscal year ended June 30, 2016 will be submitted as soon as available.

APPENDIX I

EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF
PUERTO RICO

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

THE EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

General

The Employees Retirement System of the Government of the Commonwealth of Puerto Rico (System) is a trust created by the Legislature of Puerto Rico in 1951 pursuant to the Act to provide retirement and disability annuities, death benefits, and loans to Puerto Rico's public employees. Persons eligible to become members of the System (the "Members") include: (i) all persons holding regular employment positions in any executive department, agency, administration, board, commission, committee, office or instrumentality of the Executive Branch of the Government of the Commonwealth; (ii) all members and regular employees of the Legislative Branch of the Government of the Commonwealth; (iii) all officers and regular employees of the municipalities of the Commonwealth; and (iv) all officers and regular employees of most public corporations. As of June 30, 2016, the System had 239,124 members, 120,517 of which were retirees, disabled and beneficiaries currently receiving benefits and 118,607 of which were current active participating employees.

The System administers two separate retirement plans: a defined benefit plan and a defined contribution plan. In the defined benefit plan, participants are entitled to retirement benefits which are defined and determinable. Members who entered the System on or before December 31, 1999 participate in the defined benefit plan. The defined contribution plan, on the other hand, is a retirement plan that provides for an individual account for each participant of the plan and for benefits based solely upon the amounts contributed to such participant account. Members who entered the System on or after January 1, 2000 participate in the defined contribution plan.

The System enacted Act 3, which constitutes a comprehensive reform of the Employees Retirement System. This reform was necessary to address the growing funding shortfalls which threatened the long term viability of the Employees Retirement System. Act 3 enacted on April 4, 2013 is a broad ranging dynamic 50 year plan with several significant changes that will eventually result in all active and retired members participating in a member funded hybrid plan. The focus of Act 3 is on cash flow for roughly the first half of the period, followed by a "catch up" period for the second half. During the first half of the 50 year period the combination of benefit changes and additional funding are designed to provide enough cash such that the System is expected to be able to pay full benefits and Pension Obligation Bond debt service on schedule. During this time the System is expected to have gross assets on hand that are less than the outstanding Pension Obligation Bond liability. During the second half of 50 year period, continued high employer contribution rates will be used to "catch up" and fill in member notional accounts with real assets.

As of June 30, 2016, the System had total assets of \$2.363 billion, total liabilities (not including actuarial liabilities) of \$3.535 billion, and net assets held in trust for pension benefits of \$1.171 billion⁽¹⁾. For the fiscal year ended June 30, 2016, the System's net assets held in trust for pension benefits decreased by approximately \$584 million. This includes the net effect of employer, employee and special contributions of \$1.095 billion (This amount includes funds received from Early Retirement), net investment gain of \$114 million, benefits paid of \$1.627 billion and administrative expenses of \$26 million.

(1) This includes a Debt Service of 3.0 billion.

The System has the authority to transact all of its business, invest its funds and hold its securities and other properties in its own name. The Act authorizes the System to borrow money, including through the direct placement of debt, and secure any such borrowing with its assets.

Governance

Control of the governance and operation of the Systems is vested in the Board of Trustees (the “Board”), which sets policy and oversees the operations consistent with applicable laws. Law 116-2011 increased the size of the Board to eleven (11) members. They include the Puerto Rico Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico¹, the Commissioner of Municipal Affairs, and the Director of the Office of Training and Labor Affairs Advisory and Human Resources Administration of the Government of Puerto Rico² as ex officio members. Five (5) members are appointed to three (3) year terms by the Governor of Puerto Rico. Of the three (3) active participants, two (2) are members of the Government Employees' Retirement System, and the other a member of the Judiciary's Retirement System, with at least ten (10) years of credited service on the date of their appointment. The other two (2) members are retirees from each System; one from the Government Employees' Retirement System and the other from the Judiciary's Retirement System. The other two (2) members shall be the Chairs of the Federation of Mayors and the Association of Mayors of Puerto Rico, respectively. The ex-officio members may designate delegates to represent them at meetings of the Board and in any other activities within their duties as members of the Board, except when the Chair of the Board requires their attendance. The Board is also responsible for appointing the Administrator of the Systems (the “Administrator”).

¹ Act 2-2017 stated that the President of Government Development Bank for Puerto Rico was substituted for the Executive Director of the Fiscal Agency and Financial Advisory Authority on all Boards.

² Act 8-2017 changed the agency's name from Office of Training and Labor Affairs Advisory and Human Resources Administration of the Government of Puerto Rico to Office of Administration and Transformation of Human Resources of the Government of Puerto Rico.

As of June 30, 2016 consisted of the following members:

<u>Name</u>	<u>Position on the Board</u>
Harry O. Vega Díaz Director of the Office of Training and Labor Affairs Advisory and Human Resources Administration	Ex-officio Member and President of the Board
Sonia I. Vélez Colón, Esq.	Representative of Retirees of the Judiciary's Retirement System and Vice-president of the Board
Blanca Ramos Robles	Representative of Active Members of the Government Employees' Retirement System and Secretary of the Board
Melba I. Acosta Febo, Esq. President of the Government Development Bank	Ex-officio Member
Juan C. Zaragoza Gómez Secretary of the Department of Treasury	Ex-officio Member
Carlos M. Santini Rodríguez, Esq. Commissioner of Municipal Affairs	Ex-officio Member
Hon. Emmalind García García	Representative of Active Members of the Judiciary's Retirement System
Yesenia Mojica Figueroa	Representative of Active Members of the Government Employees' Retirement System
Eva Ramos de Reyes, Esq.	Representative of the Retirees of the Government Employees' Retirement System
Hon. Rolando Ortiz Velázquez President of the Puerto Rico Mayors Association and Mayor of the Municipality of Cayey	Member
Hon. Héctor O'Neill García President of the Puerto Rico Mayors Federation and Mayor of the Municipality of Guaynabo	Member

The Board currently consists of the following members:

<u>Name</u>	<u>Position on the Board</u>
<i>Yesenia Mojica Figueroa</i>	Representative of Active Members of the Government Employees' Retirement System and President of the Board
<i>Sonia I. Vélez Colón, Esq.</i>	Representative of Retirees of the Judiciary's Retirement System and Vice-president of the Board
<i>Eva Ramos de Reyes, Esq.</i>	Representative of Retiree Members of the Government Employees' Retirement System and Secretary of the Board
<i>Gerardo José Portela Franco</i> Executive Director of the Fiscal Agency and Financial Advisory Authority	Ex-officio Member
<i>Hon. Raúl Maldonado Gautier</i> Secretary of the Department of Treasury	Ex-officio Member
<i>Omar Negrón Judice</i> Commissioner of Municipal Affairs	Ex-officio Member
<i>Nydzá Irizarry Algarín, Esq.</i> Director Office of Administration and Transformation of Human Resources of the Government of Puerto Rico	Representative of Active Members of the Government Employees' Retirement System
<i>Hon. Erik J. Ramírez Nazario</i>	Representative of Active Members of the Judiciary's Retirement System
<i>Julia M. Delgado, MSW</i>	Representative of Active Members of the Government Employees' Retirement System
<i>Hon. Rolando Ortiz Velázquez</i> President of the Puerto Rico Mayors Association and Mayor of the Municipality of Cayey	Member
<i>Hon. Carlos Molina Rodríguez</i> President of the Puerto Rico Mayors Federation and Mayor of the Municipality of Arecibo	Member

Management

Pedro R. Ortiz Cortés, Esq., is the administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. He was appointed to this position on May 27, 2015. Prior to his appointment, Mr. Ortiz Cortés worked as Special Advisor to the Governor in the Office of the Governor of Puerto Rico (2 years), and was an Associate at Pedro Ortiz Alvarez Law Offices (3 years).

Mr. Ortiz Cortés received a Bachelor's degree in Finance, from the University of Puerto Rico, Río Piedras Campus, on May 2004, a Juris Doctor from the University of Puerto Rico, Río Piedras Campus, Faculty of Law, in May 2007, and an L.L.M. in Banking, Corporate and Finance Law, from Fordham University in 2010.

Other principal officers of the System include the following:

Mrs. Natalia M. Palmer Cancel, Esq., is the deputy administrator and general counsel of the Puerto Rico Government Employees Retirement System and Judiciary Retirement Systems Administration. Ms. Palmer was appointed to the General Counsel position on June 2015 and as Deputy Administrator on October 2015. Prior to her appointment, Ms. Palmer Cancel worked as auxiliary Legal and Legislative advisor to the Governor of Puerto Rico (2 years) and as an Associate at Ferraiuoli LLC- law firm (2 years). Ms. Palmer Cancel received a B.A. in Pre-Law, University of Puerto Rico, Río Piedras Campus on May 2005 and a J.D. from the University of Puerto Rico, Río Piedras Campus, Faculty of Law, in May 2009.

Mr. Félix Maldonado Robles, Esq., is the Comptroller of the Puerto Rico Government Employees Retirement System and Judiciary Retirement Systems Administration. Mr. Maldonado Robles was appointed to this position on June 2015. Prior to his appointment, Mr. Maldonado Robles worked as an Associate Attorney at Cobian & Cobian, P.S.C. (1 year), as an Accountant/tax Consultant at BDO, Puerto Rico (1 year) and at the Department of Justice- Litigation Division (4 years). Mr. Maldonado Robles received a B.B.A. Mayor in Accounting and Finance from the University of Puerto Rico, Río Piedras Campus (May 2004) and a J.D. from the University of Puerto Rico, Río Piedras Campus, Faculty of Law, in May 2008.

The administrative offices of the System are located at 437 Ponce de Leon Ave., 15th Floor, San Juan, Puerto Rico 00917-3711.

Other post-employment benefits

Commencing with fiscal year 2014, which began on July 1, 2013, the Commonwealth will be required, pursuant to Government Accounting Standards Board ("GASB") Statement Number 67, to calculate and record for financial accounting purposes the cost of non-pension post-retirement benefits provided to former government employees using actuarial principles, in substantially the same way that it calculates and records pension benefits provided to such employees. These benefits currently include, per retiree and beneficiary, an annual \$100 bonus to cover pharmaceutical costs, a \$100 per month reimbursement to cover medical insurance premiums, an annual Christmas bonus of \$200. Currently, the Commonwealth records these costs on a cash basis. Although this required calculation will not have a cash impact on the Commonwealth beyond what it currently pays, it will be reflected in the financial statements of the Commonwealth and may highlight the long term costs of providing these benefits.

Also commencing with fiscal year 2015, which began on July 1, 2014, the Commonwealth will be required, pursuant to Government Accounting Standards Board (“GASB”) Statement Number 68, to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government’s inflows of resources and its total cost (including pension expense) of providing government services each period. Also is to provide users with information about the government’s pension obligations and the resources available to satisfy those obligations.

GOVERNMENT EMPLOYERS CONTRIBUTING TO THE SYSTEM

Currently, there are 195 Government Employers that are required by the Act to contribute to the System for the benefit of their employees. These are classified by the System into three categories on the basis of whether their Employer Contributions are made by the Treasury Department or by the Government Employer itself: (i) agencies and departments of the central government (excluding the Police Department), which make their Employer Contributions through the Treasury Department, (ii) public corporations and the Police Department (an agency of the central government), which make their Employer Contributions directly, and (iii) municipalities, which also make their Employer Contributions directly. These represented 56.1%, 26.1% and 17.8%, respectively, of total Employer Contributions in fiscal year 2016.

The following table shows Employer Contributions, net of contributions made in connection with early retirement programs, for the five-year period ended June 30, 2016.

Entities	2011-12	2012-13	2013-14	2014-15	2015-16
Central Government*	169,637,846	201,888,194	269,336,238	226,325,608	387,796,947
Public Corporations*	145,373,400	147,334,809	246,778,521	183,914,017	180,757,152
Municipalities	65,752,266	75,480,907	92,143,779	76,712,808	123,218,811
Total	\$380,763,512	\$424,703,910	\$608,258,538	\$486,952,432	\$691,772,910

Source: Employees Retirement System.

(*) Even though the Police Department is an agency of the central government and not a public corporation, the System has historically accounted for the Employer Contributions made by the Police Department as Employer Contributions made by public corporations. This table reflects that custom and includes the Police Department with public corporations.

Participating Government Employers are funded from several sources: Commonwealth income and other taxes deposited in the Commonwealth’s General Fund, funds provided by the Federal government, internally generated funds (in the case of public corporations) and other sources.

Government Employers with Highest Covered Payroll

The table below shows the 10 Government Employers with the highest participating employees and covered payroll as of June 30, 2016. Also, the table sets forth whether the entity is an agency or department of the central government, a public corporation, or a municipality, the total Employer Contributions, and the share of total Employer Contributions represented by such instrumentality as of June 30, 2016.

Entity	Classification	Participating Employees June 30, 2016	Covered Payroll June 30, 2016	Employer Contribution June 30, 2016	% of Total Employer Contribution June 30, 2016
Police Department	Central Government	14,243	502,823,225	81,663,417	11.80%
Education Department	Central Government	12,818	273,899,008	38,995,354	5.64%
Correctional Facilities Administration	Central Government	6,905	181,348,631	25,956,047	3.75%
State Insurance Fund Corporation	Public Corporation	3,086	180,737,911	36,825,881	5.32%
Administration of Court Facilities	Central Government	4,825	141,566,542	20,336,823	2.94%
Aqueduct and Sewer Authority	Public Corporation	4,728	140,389,724	32,987,809	4.77%
Health Department	Central Government	4,727	134,539,232	19,319,311	2.79%
Municipality of San Juan	Municipality	4,475	123,667,118	28,980,172	4.19%
Justice Department	Central Government	1,711	75,403,302	10,760,183	1.56%
Department of Treasury	Central Government	2,483	68,577,826	9,637,983	1.39%
Sub-Total		60,001	\$ 1,822,952,519	\$ 305,462,981	44.16%
Other Government Employers		58,606	\$ 1,473,304,276	\$ 386,309,929	55.84%
Total		118,607	\$ 3,296,256,795	\$ 691,772,910	100.00%

Source: Employees Retirement System

- (1) Education Department's employees who participate in the System are those who are not teachers. Teachers participate in the Teachers Retirement System.
- (2) Judges are not included in the Administration of Court Facilities.

The Puerto Rico Treasury Department makes Employer Contributions on behalf of the agencies and departments of the central government, except the Police Department, and on behalf of certain public corporations. The Police Department, the remaining public corporations and the municipalities pay their Employer Contributions to the System directly.

The System normally receives approximately 95% of Employer Contributions within 15 days of the date due and in excess of 97% of Employer Contributions within the year the contribution is due. The Act grants the System the authority to compel payments from Government Employers and provides that failure to remit the Employer Contributions on time constitutes a misdemeanor. Additionally, Law 116 of 2011 provides the System with the ability to issue a debt certificate against municipalities that are over 30 days past due in their remittances to the System. A debt certificate is sent to the CRIM (*Centro de Recaudación de Ingresos Municipales*) and to the Treasury Department for payment to the System. As of June 30, 2016, these employers' aggregate unpaid obligations totaled approximately \$201 million. The System continues to pursue the collection of outstanding amounts and to ensure that future payments are made in a timely manner.

Puerto Rico Police Department

The Puerto Rico Police Department (the "Police Department") is the official territorial police force of the Commonwealth. As of June 30, 2016, the Police Department had 14,243 participating employees, with an average annual salary of \$35,303. For fiscal year ending June 30, 2016, the Police Department's average monthly contribution to the System for the benefit of its employees was approximately \$ 6.8 million.

Puerto Rico Education Department

The Puerto Rico Education Department (the "Education Department") is responsible for the administration and funding of the public school system of the Commonwealth. The Secretary of Education, a member of the Governor's cabinet, is the head of the Education Department.

As of June 30, 2016, the Education Department had 49,275 employees. Of the total headcount, 36,457 were teachers. Public school teachers do not participate in the System but rather in the Teachers Retirement System, one of the other four retirement systems that cover Puerto Rico's public employees. Only those employees of the Education Department who are not teachers, or as they are known in Spanish "*empleados no docentes*," are members of the System. As of the above date, the Education Department had 12,818 participating employees with an average annual salary of \$21,368 for fiscal year ending June 30, 2016. For fiscal year ending June 30, 2016, the Education Department's average monthly contribution to the System for the benefit of its employees was approximately \$3.2 million.

Administration of Correctional Facilities

The Administration of Correctional Facilities of Puerto Rico (the "Administration of Correctional Facilities") regulates and oversees the operation and administration of the Commonwealth's correctional and penitentiary system.

As of June 30, 2016, the Administration of Correctional Facilities had 6,905 participating employees, with an average annual salary of \$26,263. For fiscal year ending June 30, 2016, the Administration of Correctional Facilities' average monthly contribution to the System for the benefit of its employees was approximately \$2.1 million.

State Insurance Fund Corporation

The State Insurance Fund Corporation ("SIFC") is a public corporation created to administer the Workmen's Compensation Act of Puerto Rico. SIFC provides medical services to public and private employees who have suffered occupational injuries. SIFC has broad powers, including the authority to conduct all of its business, invest its funds and own real estate.

As of June 30, 2016, SIFC had 3,086 participating employees, with an average annual salary of \$58,567. For fiscal year ending June 30, 2016, SIFC's average monthly contribution to the System for the benefit of its employees was approximately \$3.1 million.

Health Department

The Puerto Rico Health Department (the "Health Department") is responsible for promoting and ensuring the health and well-being of all residents of Puerto Rico. The Health Department is headed by the Secretary of Health, who is also a member of the Governor's Cabinet. Among the powers granted to the Health Department are (i) the authority to regulate all medical facilities in the Commonwealth; (ii) the administration and operation of public health facilities, including the Commonwealth's biggest medical facility, the Medical Center in San Juan; (iii) the administration of financial and nutritional assistance programs; and (iv) the funding and administration of the public health insurance system.

As of June 30, 2016, the Health Department had 4,727 participating employees, with an average annual salary of \$28,462. For fiscal year ending June 30, 2016, the Health Department's average monthly contribution to the System for the benefit of its employees was approximately \$1.6 million.

Administration of Court Facilities

The Office of Administration of Court Facilities (the “Administration of Court Facilities”) is a governmental entity that assists the Chief Justice of the Puerto Rico Supreme Court in the administration of the Judicial System of the Commonwealth. The Commonwealth’s Constitution grants the Chief Justice of the Supreme Court of Puerto Rico authority over the Judicial System of the Commonwealth. In order to carry out his responsibilities, the Chief Justice may delegate some of his powers to the Executive Director of the Administration of Court Facilities. The Executive Director of the Administration of Court Facilities is responsible for the daily operations of the Judicial System.

As of June 30, 2016, the Administration of Court Facilities had 4,825 participating employees. The total average annual salary of the employees is \$29,340. Judges do not participate in the System. For fiscal year ending June 30, 2016, the Administration of Court Facilities’ average monthly contribution to the System for the benefit of its employees was approximately \$1.7 million.

Municipality of San Juan

The Municipality of San Juan (“San Juan”) is the capital of the Commonwealth and the most populous of the 78 municipalities. San Juan is the economic center of the Commonwealth. Most major local banks’ headquarters, as well as many hotels, are located at San Juan.

As of June 30, 2016, San Juan had 4,475 participating employees, with an average annual salary of \$27,635. For fiscal year ending June 30, 2016, San Juan’s average monthly contribution to the System for the benefit of its employees was approximately \$2.4 million.

Department of Treasury

The Puerto Rico Treasury Department (the “Treasury Department”) is the governmental entity responsible for the Commonwealth’s financial and fiscal matters. The Secretary of the Treasury, who is also a member of the Governor’s cabinet, is the head of the Treasury Department. Along with other governmental entities, the Treasury Department actively participates in the implementation of the Commonwealth’s financial and economic policies. Within the powers granted to the Treasury Department is the power to collect taxes and enforce tax laws. Pursuant to the Act, the Treasury Department is the fiscal agent of the System.

As of June 30, 2016, the Treasury Department had 2,483 participating employees, with an average annual salary of \$27,619. For fiscal year ending June 30, 2016, the Treasury Department’s average monthly contribution to the System for the benefit of its employees was approximately \$803,165 million.

Justice Department

The Puerto Rico Justice Department (the “Justice Department”) is the governmental entity responsible for enforcing the laws of the Commonwealth. The Secretary of Justice, who is also a member of the Governor’s cabinet, is the head of the Justice Department. The Secretary oversees the work of all district attorneys across the Commonwealth. The Justice Department is also responsible for defending the interests of the Commonwealth in courts of law.

As of June 30, 2016, the Justice Department had 1,711 participating employees, with an average annual salary of \$44,070. For fiscal year ending June 30, 2016, the Justice Department’s average monthly contribution to the System for the benefit of its employees was \$896,681.

Puerto Rico Aqueduct and Sewer Authority

The Puerto Rico Aqueduct and Sewer Authority (“PRASA”) owns and operates the Commonwealth’s public water supply and sanitary sewer systems. Similar to other Commonwealth public corporations, PRASA has broad powers, including the authority to invest its funds and own real estate.

As of June 30, 2016, PRASA had 4,728 participating employees, with an average annual salary of \$29,693. For fiscal year ending June 30, 2016, PRASA’s average monthly contribution to the System for the benefit of its employees was approximately \$2.7 million.

The following table shows the number of participating employees of each of the 10 major contributors to the System for the four-year period ended June 30, 2015 and last year ended June 30, 2016:

Entity	Classification	2012	2013	2014	2015	2016
Puerto Rico Police Department	Central Govt	17,521	15,161	14,829	14,552	14,243
Puerto Rico Education Department	Central Govt	16,574	14,683	13,559	13,528	12,818
Correctional Facilities Administration	Central Govt	6,642	7,155	7,277	7,159	6,905
State Insurance Fund Corporation	Public Corp	3,504	3,367	3,198	3,162	3,086
Administration of Court Facilities	Central Govt	5,476	5,094	5,111	4,949	4,825
Health Department	Central Govt	5,741	5,110	4,999	4,848	4,727
Municipality of San Juan	Municipality	5,770	5,404	4,766	4,585	4,475
Department of Treasury	Central Govt	2,472	2,047	2,177	2,575	2,483
Justice Department	Central Govt	1,949	1,911	1,770	1,754	1,711
Aqueduct and Sewer Authority	Public Corp	4,945	4,879	4,955	4,910	4,728

Source: Employees Retirement System

ADDITIONAL INFORMATION RELATING TO THE SYSTEM

General

The System is a trust created by the Legislature of Puerto Rico in 1951 pursuant to the Act to provide retirement and disability annuities, death benefits, and loans to certain of Puerto Rico’s public employees. Persons eligible to become members of the System (the “Members”) include: (i) all persons holding regular positions in any executive department, agency, administration, board, commission, committee, office or instrumentality of the Executive Branch of the Government of the Commonwealth; (ii) all members and regular employees of the Legislative Branch of the Government of the Commonwealth; (iii) all officers and regular employees of the municipalities of the Commonwealth; and (iv) all officers and regular employees of participating public corporations. As of June 30, 2016, the System’s active membership totaled approximately 118,607 participating employees, with a total of 120,517 retirees, beneficiaries and disabled as of such date.

Changes in the structure of the System

At its inception, the System was structured as a defined benefit plan. In a defined benefit plan, the members of the plan are entitled to retirement benefits which are defined and determinable. Those retirement benefits could be, as it was the case of the System prior to the 1999 amendments, previously defined by a statute. As of June 30, 2016, 174,381 members were participating employees, retirees, beneficiaries and disabled of the defined benefit plan, and, therefore, entitled to receive retirement benefits that were expressly defined in the Act.

In February 1990, the Act was amended to reduce future pension liabilities of the System. Said amendments provided, among other things, for an increase in the level of contributions to the System and limited the retirement benefits for new Members by increasing the number of years of service required for vesting certain benefits and reducing the level of benefits in the case of early retirement. Disability and death benefits were also reduced for new Members as a result of these amendments.

In 1999, the Act was further amended to provide that all persons who became Members of the System on or after January 1, 2000, would no longer be entitled to participate in the defined benefit plan, and would instead participate in a defined contribution plan established by such amendment to the Act. A defined contribution plan is a retirement plan that provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant's account and any income, expenses, gains and losses, and any forfeiture of accounts of other participants which may be allocated to such participant's account. This change in the structure of the System responded primarily to the need of the System to address its large actuarial deficit. At June 30, 2016, defined contribution membership within the System's consisted of 64,743 active participating employees.

Among the factors that contributed to the deficit were: (i) the historical undercapitalization of the System, (ii) increases in certain post-employment benefits were not properly funded and (iii) the System assets have consistently been insufficient to satisfy the System's obligations. By converting the System into a defined contribution plan, the System would no longer be responsible for covering future deficits. Under the defined contribution plan, each Member would have an individual account, in which the contributions made by such Member will be deposited into. When the Member retires, the Administrator disburses the amount deposited in such Member's account in accordance with the provisions of the Act.

Notwithstanding all of the above legislative and administrative measures directed at addressing the funding shortfall of the Retirement Systems, the funding situation of the Employees Retirement System presented a serious long term challenge that required more urgent and sweeping changes to improve the financial health and long term viability of the Employees Retirement System. With that objective in mind, on April 4, 2013, the new administration of Governor Alejandro Garcia Padilla succeeded in enacting Act 3.

The most important aspects of the changes effected by Act 3 are the following:

1. With respect to active employees who are Act 447 Participants and Act 1 Participants, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter all future benefits will accrue under a defined contribution formula which will be paid at retirement through a lifetime annuity.
2. The retirement age for Act 447 Participants will be gradually increased from age 58 to age 61.
3. The retirement age for current System 2000 Participants is increased gradually from age 60 to age 65.
4. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
5. The employee contribution will be increased from 8.275% to 10%.

6. For System 2000 Participants the retirement benefits will no longer be paid as a lump sum payment and instead will be paid in the form of a life time annuity.

7. In terms of post-employment benefits, the Christmas bonus payable to current retirees is reduced from \$600 to \$200 (and is eliminated for future retirees) and the summer bonus is eliminated. Future retirees will not receive any post-employment benefits.

8. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.

9. Survivor benefits will be modified.

SUBSEQUENT EVENTS

Since its inception, the funding of ERS has generally been inadequate to meet the benefit obligations of the System.

A. POB's

To further address the underfunded ERS shortfall, as discussed below, on February 27, 2007, the ERS Board authorized the issuance of one or more series of Employees Retirement System of the Government of the Commonwealth of Puerto Rico Pension Funding Bonds (the "POBs") in order to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. The issuance of three series of POBs in the aggregate of over \$3 billion did not resolve ERS' financial instability, which was increasing as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners had higher salaries and consequently, were entitled to even higher annuities. As the underfunded status of ERS continued to escalate, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

B. Act No. 3-2013

Act No. 3-2013. Accordingly in 2013, the Commonwealth enacted legislation that sought to reform ERS by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system.

C. Moratorium Act

As ERS covers employees of both the Commonwealth and non-Commonwealth employers (public corporations and municipalities), it historically received contributions from both groups of employers. For the fiscal year (July 1 – June 30) 2015, approximately 53.7% of ERS' contributions came from non-Commonwealth employers, with the remaining contributions coming from the

Commonwealth.^[1] Pursuant to the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, then-Governor Garcia-Padilla issued Executive Order 2016-30 (“Executive Order 30”), dated June 30, 2016, suspending Commonwealth contributions to ERS up to the amount of debt service payable by ERS during fiscal year 2016-2017. Executive Order 30 also declared a state of emergency for ERS and suspended ERS’s obligation under the ERS Bond Resolution to transfer employer contributions to the Fiscal Agent (as defined therein) for payment of debt service on the bonds and ERS’s ability to transfer non-Commonwealth employer contributions to the Fiscal Agent. As of September 2016, before payment of debt service on October 1, 2016, the Fiscal Agent held only approximately \$100 million on deposit for payment of monthly debt service on the POBs and, at the anticipated rate of payment, the Fiscal Agent would no longer have sufficient funds to pay debt service to the ERS bondholders starting May 2017.

D. ERS Bondholder Litigation

In the wake of the government action, on September 21, 2016, certain ERS bondholders commenced litigation in the United States District Court for the District of Puerto Rico against the Governor of Puerto Rico and ERS seeking to lift the stay imposed by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). The parties reached a settlement on January 17, 2017. The settlement provides that non-Commonwealth employer contributions made to ERS during the PROMESA stay will be held in a segregated account for the benefit of the ERS bondholders (the “Segregated Account”), and the funds will remain in the Segregated Account until the parties agree otherwise or a court rules on the disposition of the funds. On April 11, 2017, the United States District Court for the District of Puerto Rico in *Altair Global Credit Opportunities Fund (A), LLC, et al. v. Gov. Ricardo A. Rossello-Nevares, et al.*, Civ. No. 16-2696 (FAB), entered the Joint Stipulation and Order [ECF No. 86] (the “Stipulation and Order”) between and among the holders of the Senior Pension Funding Bonds (the “ERS Bonds”), ERS and the other Commonwealth defendants. ERS is in compliance with the Stipulation and Order.

E. Fiscal Plan

Upon the adoption of the Fiscal Plan dated February 27, 2017 (as amended March 13, 2017, the “Fiscal Plan”), the Government of Puerto Rico has recently made clear that “[a]ll three pension systems are severely underfunded and are projected to deplete their assets in the near future.” ERS recognizes the critical nature of these issues and the limited time available to address the proposals embodied in the Fiscal Plan. Certification regarding how pension matters will be treated is still pending approval by the FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO.

^[1] The only Commonwealth contributions realized by ERS since July 2016 are internal accounting adjustments from the Department of Treasury in the amount of \$18.5 million per month. The Commonwealth owes ERS more than \$411 million on account of Additional Uniform Contribution (AUC) payments that ERS no longer receives.

SUMMARY OF HISTORICAL ACCOUNTING DATA
(dollars in thousands)

	Fiscal Year Ended June 30,				
	2012	2013	2014	2015	2016
Additions ⁽¹⁾	\$1,193,980	\$1,207,215	\$1,458,523	\$1,263,396	\$1,208,454
Deductions ⁽²⁾	1,680,919	1,713,406	1,980,243	1,945,339	1,889,059
Net (Decrease) Increase ⁽³⁾	-486,939	-506,191	-521,720	-681,943	-680,605
Net Assets	1,236,873	731,341	209,621	-554,455	-1,171,830
Total Assets	4,479,782	3,995,904	3,522,258	2,764,142	2,363,438
Total Cash and Investments ⁽⁴⁾	3,237,897	2,999,353	2,538,162	1,763,677	1,409,984

Source: Audited Financial Statements of the Employees Retirement System (2012-2013)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2014-2016)

- (1) Additions consist of employer and employee contributions, investment income, special law contributions, insurance premiums on loans to members and other income.
- (2) Deductions include retirement and disability annuities, death and other benefits, refunded employer contributions, refunded participating employee contributions, insurance claims on loans to plan members and general, administrative and interest expenses.
- (3) Net (Decrease) Increase is equal to the excess of revenues over expenses reduced by net amounts transferred to other retirement systems.
- (4) Investments are comprised of interest bearing accounts, marketable securities and Bond issue Costs. This amount reflects the fair market value of investments, net of premiums and discounts.

Summary of Benefits Paid by the System

The following table sets forth the amounts and types of benefits paid by the System during the five-year period ended June 30, 2016:

BENEFITS SUMMARY

	(In Thousands)				
	2012	2013	2014	2015	2016
Annuity Benefits ⁽¹⁾	\$1,170,749	\$1,218,958	\$1,273,299	\$1,337,848	\$1,322,416
Death Benefits	13,604	10,012	24,438	17,340	13,558
Benefits under Law 127 ⁽²⁾	<u>16,291</u>	<u>16,500</u>	<u>14,666</u>	<u>14,295</u>	<u>13,951</u>
Total	\$1,200,644	\$1,245,470	\$1,312,403	\$1,369,483	\$1,349,925

Source: Audited Financial Statements of the Employees Retirement System (2012-2013)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2014-2016)

- (1) Annuity Benefits consist of the original retirement, merit and disability annuities.
- (2) Law 127 provides for the payment of death and disability benefits for certain employees of the Police Department, the Firefighters Corp, the Administration of Correctional Facilities, the Puerto Rico National Guard and the Treasury Department.

Loans

By a determination of the Board of Trustees and the administration, since November 15, 2016, the loan department is not offering new loans.

Since November 2016, the loan department has been focus on the servicing of the loan portfolio.

During FY 2011-12 the System sold approximately \$225 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2012-13 the System sold approximately \$88 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2013-14 the System sold approximately \$100 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2014-15 the System did not sell any loans from the investment portfolio.

Insurance

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of the death of a Member. Members who obtained these loans from the System pay the coverage in its entirety. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Investments

The Act provides that the System may invest all its assets not used to cover operational and administrative expenses. Said investments may be made in certain types of securities. The Act authorizes the System to invest in fixed income securities, in capital stock of any corporation organized under the laws of the Commonwealth, any state of the United States of America or any foreign jurisdiction and in risk capital. The Act also provides that the System may invest up to 15% of its assets in income-yielding real estate and restricts the amount of assets which the System may invest in foreign jurisdictions. At present, the System may only invest up to 10% of its assets in foreign jurisdictions.

The System's Board of Trustees has investment authority and sole fiduciary responsibility for the management of the System's assets. The Board is guided by the System's Investment Committee, management, and the staff in the Actuarial Studies and Investments Office who carry out the daily activities of the investment program.

The System's goal is to efficiently and effectively manage investments to achieve the highest possible return at an acceptable level of risk. The System's investment portfolio is diversified into several asset classes, so that over the long run any weaknesses in one area are offset by gains in another. The Board follows a strategic asset allocation policy that targets the percentage of funds to be invested in each asset class.

The System's investments are managed in accordance with the Statement of Investment Guidelines for Public Plans set forth by the Government Development Bank.

The table below describes the System's investment portfolio at fair value.

INVESTMENT PORTFOLIO

	(In Thousands)				
	2012	2013	2014	2015	2016
Bonds and notes:					
U.S. government and sponsored agencies' securities	\$193,572	\$184,848	\$168,561	\$147,833	\$73,374
Municipal Bonds	52,499	25,730	11,152	8,791	3,689
SSGA Bond Index	241,281	193,046	69,046	58,823	59,214
U.S. Corporate Bonds	883,342	910,780	1,019,457	548,999	276,620
COFINA Bonds	245,339	229,819	138,123	89,139	93,484
Capital Stock:					
US Equity	793,330	860,584	681,537	292,145	160,370
Non-US Equity	0	0	0	116,855	0
Alternative Investments:					
Private Equity Investments	<u>57,371</u>	<u>55,067</u>	<u>54,146</u>	<u>53,539</u>	<u>50,554</u>
Total	\$2,466,733	\$2,459,874	\$2,142,022	\$1,316,124	\$717,305

Source: Audited Financial Statements of the Employees Retirement System (2012-2013)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2014-2016)

Totals may not add due to rounding.

Summary of Loan Portfolio

The following table sets forth by categories the principal amount of loans made by the System to Members during the five-fiscal year period ended June 30, 2016:

LOAN PORTFOLIO

As of Fiscal Year Ended June 30,					
(In Thousands)					
	2012	2013	2014	2015	2016
Mortgage Loans	\$152,666	\$160,109	\$164,416	\$170,785	\$169,658
Personal Loans	727,083	559,270	405,396	392,378	379,818
Cultural Trip Loans	<u>75,308</u>	<u>71,782</u>	<u>48,569</u>	<u>44,454</u>	<u>47,968</u>
Total	\$955,057	\$791,161	\$618,381	\$607,617	\$597,444

Source: Audited Financial Statements of the Employees Retirement System (2012-2013)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2014-16)
